



## CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** Authorize the City Manager to utilize the financial management services of Public Financial Management, Inc.

**MEETING DATE:** May 19, 1999

**SUBMITTED BY:** Deputy City Manager

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**RECOMMENDED ACTION:** That the City Council authorize the City Manager to utilize the services of Public Financial Management, Inc. as the City's Financial Advisor for new financings, refinancings long-term financial planning, and on an "as need be" basis.

**BACKGROUND INFORMATION:** Over the course of the past 12 months, City staff members have interviewed seven financial management consultants to serve as the City's potential Financial Advisor. The City is now in the process of evaluating many projects which will likely entail various forms of financing and, is therefore, in particular need of financial advice. Such projects include refinancing the electric utility distribution system, construction of a downtown parking structure, renovation of the public safety building, and the possibility of an indoor sports facility. In addition, the City periodically needs an unbiased third party evaluation of financial opportunities for such projects as the TCE/PCE clean-up and ongoing litigation.

Based upon Public Financial Management, Inc.'s (PFM) experience with cities and counties throughout California, and in particular their experience with public power agencies, the City Manager recommends that PFM be utilized as the City's Financial Advisor, for such matters as project financings, refinancing, and long-range financial planning. Moreover, PFM does not trade, sell, or underwrite any municipal securities and therefore does not co-mingle banking and financial advisory work (see attached Exhibit A and Exhibit B).

**FUNDING:** Compensation to PFM will be based upon the type of engagements as requested by the City of Lodi.

Respectfully Submitted,

Janet S. Keeter  
Deputy City Manager

APPROVED:

H. Dixon Flynn -- City Manager

EXHIBIT A

**City of Lodi**  
**Proposal for Financial Advisory**  
**Services**

April 2, 1999

**Public Financial Management, Inc.**  
505 Montgomery Street  
Suite 800  
San Francisco, CA 94111  
Phone 415/982-5544  
Fax 415/982-4513



**Public Financial Management**  
Financial and Investment Advisors

April 2, 1999

Mr. H. Dixon Flynn  
City Manager  
City of Lodi  
221 West Pine Street  
Lodi, CA 95241  
Fax: (209) 333-6807

Dear Mr. Flynn:

In accordance with a request from Janet Keeter, Public Financial Management, Inc. ("PFM") is very pleased to submit this proposal to work with the City of Lodi (the "City") as a Financial Advisor. We have also attached a copy of our general information book as an introduction to our firm. We would very much like to work with the City in connection with the various projects that the City is currently exploring, including the environmental clean-up strategy, the potential issuance of electric utility bonds and possible refinancing opportunities, as well as any projects that the City might consider in the future. We were sorry to miss you this week at the City and after your review of this proposal, we hope to have the opportunity to meet with you to discuss further the City's financing needs and our qualifications to serve as Financial Advisor. In anticipation of this meeting, we have provided below a summary of our qualifications, our approach to working with the City and some initial thoughts on our proposed compensation.

#### **Qualifications**

**Independence and Integrity** - Since its founding in 1975, PFM has dedicated itself to one primary function: to assure that its governmental clients pursue the most appropriate financing strategy by making informed decisions in regard to their financial alternatives and to see that they obtain the best possible terms in their financing should they choose to proceed. PFM is not owned in part or in whole by any bank and is therefore free of any bigger agenda which can cloud recommendations. PFM does not trade, sell, or underwrite any municipal securities and intends to remain free of any potential conflicts of interest that can arise when banking and financial advisory work are commingled. In today's market where one municipal scandal seems to follow another, we believe that our true independence allows us to provide advice with the highest level of objectivity and integrity and to avoid even the perception of a conflict of interest.

**Familiarity with California City Financing** - PFM has worked with a number of counties and cities throughout California on a variety of different types of financings. We have worked on lease revenue bonds, certificates of participation, electric utility bonds, water and sewer revenue bonds, tax and revenue anticipation notes, equipment lease financings and tax allocation bonds for California cities. In utilizing these financial strategies, we have worked on police, fire, concert, convention center, administration, storage, health and human services, healthcare, parking, courthouse, water, wastewater, arena, stadium, gaming and jail facilities. This expertise provides us with an important sensitivity. We understand

Mr. Dixon Flynn  
Lodi City Manager  
April 2, 1999  
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California city finance and the capital and credit market's views in regard to California cities, including perceptions as to cities located in the Central Valley. Our current California City clients include:

- City and County of San Francisco
- City of Folsom
- City of Modesto
- City of Roseville
- City of Lincoln
- City of Lathrop
- City of Redding
- City of Anaheim
- City of Beverly Hills
- City of Oakland
- City of San Diego
- City of Long Beach
- City of Poway
- City of Eureka

**Experience with COPs and Electric Utility Revenue Bonds** - The single greatest advantage that we can bring to the City is experience. PFM's experience in lease and COP financing as well as public power is second to none -- we are familiar with all of the various participants in the leasing market and electric industry, including counsel, rating agencies, underwriters, and investors. We also work extensively for California cities in the development and implementation of strategic plans for deregulation. Our California public power clients include the City of Redding, City of Anaheim, the Turlock Irrigation District and SCPPA, among others.

**California Resources** - From 1985 to 1998, the Securities Data Corporation ranked PFM the nation's leading independent financial advisory firm. During 1998, PFM completed 442 financings with a par value of over \$19.5 billion. With 20 employees in our two California offices and 175 employees nationwide, we are the largest financial advisory firm both nationally and within the State.

#### **Approach and Scope of Services**

In working with the City, our approach is to serve as an extension of staff and a resource to the City. The best value-added service that we can provide is simply to help the City make an informed and independent decision as to the merits and costs of any financial strategy. For example, we can tell you what strategies other California communities are pursuing to better position themselves for the deregulated electric industry. Or, we can independently verify the projected savings levels from a refinancing. Or, we can tell you how California lease financings priced in today's market. In each case, we can provide information, organization, and feedback as to what is important and what is not.

In working with the City on the environmental clean-up, our approach will be to focus on the proposal currently being reviewed by the City. Specifically, we will work with the City to evaluate the proposed pricing parameters and to outline certain factors and risks that the City might wish to consider as part of the financing strategy. Our objective is to complete a memo to the City in the next two weeks.

In regard to the City's current electric financing, PFM's experience with California public power issuers and the deregulated electric industry in California under AB1890 will allow us to make a significant contribution to the City's team. While it is our understanding that the City has spent a considerable amount of time in planning and structuring the transaction and is entering the final phases of its completion, PFM will be able to provide the City with value in the bond rating process, procurement of municipal bond insurance, and the pricing of the City's bonds. PFM has worked with the Cities of Anaheim, Roseville, Redding, and Riverside on transmission and distribution system financings over the

past two years and is very familiar with the particular rating agency and investor concerns for this type of financing. We are currently working with all of the rating agencies and bond insurers on two future distribution system financings for Anaheim and Redding.

PFM also brings an understanding of the Northern California Power Agency ("NCPA") and the City's electric system. Given our familiarity, PFM will not spend a lot of time and effort "coming up to speed" on the City's transaction and how it fits into the utility system's debt structure; rather, the process should be seamless. Further, PFM routinely works with Salomon Smith Barney, Orrick Herrington, and Brown & Wood on public power financings across the state and enjoys a good working relationship with all of the City's consultants.

In regard to evaluating any refinancing opportunities, we work with the City to independently quantify the potential benefit and to develop and implement the most cost-effective strategy possible. The type of services that we would generally provide for a refinancing – or a new money issue – would include the following:

1. Work with the City to develop and evaluate refinancing opportunities, including the integration, as appropriate, of alternative financing strategies, debt structures and current capital market conditions
2. Make recommendation as to the optimal financing strategy consistent with City objectives, including the use of either a partial or full refinancing
3. Draft the proposed financing schedule
4. Develop and distribute RFPs for any required financing services
5. Review, provide a summary and assist with the evaluation of any proposals
6. Assist with the selection and negotiation of the financing services required
7. Assist with the coordination of financing team members
8. Analyze the cost/benefit of using credit enhancement, including bond insurance
9. Assist in the procurement of any such credit enhancement
10. Work with the City to develop and implement credit strategy, including rating presentation
11. Review legal documents
12. Attend Council meetings and make presentations, as requested
13. Review suggested interest rates and prepare analysis of comparable issuers for comparison on sale date
14. Work with the City to negotiate the preliminary and final interest rates
15. Review final bond documents
16. Assist in the pre-closing and closing of the transaction

In outlining these services, we would also point out that our fundamental approach is to develop long-term relationships founded on trust and integrity. Our services will always be tailored to the needs of our clients. Client service is the most important aspect of our firm culture. Our approach centers on being accessible, bringing the highest level of technical skills available in the market and leveraging our experience on similar transactions with our California city clients. It is this combination that we believe sets PFM's approach apart.

#### **Proposed Compensation**

Without talking to the City further, it is clearly very difficult to outline specifically how we would propose to be compensated. PFM will be pleased to work out terms that are most agreeable to the City,

Mr. Dixon Flynn  
Lodi City Manager  
April 2, 1999  
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whether it is a fixed fee, hourly fees with a cap, or other payment terms. For working on the environmental clean-up project, PFM proposes billing on an hourly rate with a cap of \$7,500. Our current hourly rates are as follows.

<u>TITLE</u>	<u>RATE/HOUR</u>
Managing Director	\$225
Senior Managing Consultant	\$195
Consultant	\$165

For bond deals, we usually charge on a fixed fee basis, which is contingent upon the successful sale of the bonds. Fees for these services can vary greatly depending on the complexity and services required but generally range from \$40,000 to \$60,000. For the electric bonds, it is our understanding that the transaction is fairly far along, and we would propose a fee of \$25,000. Again, this fee could be modified depending on the City's requirements.

In addition to the professional fees outlined above, we would expect to be reimbursed for all out-of-pocket expenses on an actual cost basis (i.e., we do not charge a multiplier on expenses). Such expenses include items such as travel, meals, postage, express mail delivery services, telephone, photocopying, outside graphics fees, etc. We do not charge for normal secretarial support, word processing or computer charges. Appropriate documentation and third party receipts will be provided with each invoice.


In connection with your review of these estimated fees, we would also like to convey that we would very much like the opportunity to work with the City. It is difficult to estimate the work requirements without more detailed discussions with the City. If any part of this fee proposal proves to be inappropriate or unacceptable to the City, we will gladly work with the City to negotiate a mutually acceptable set of fees for our services.

### Conclusion

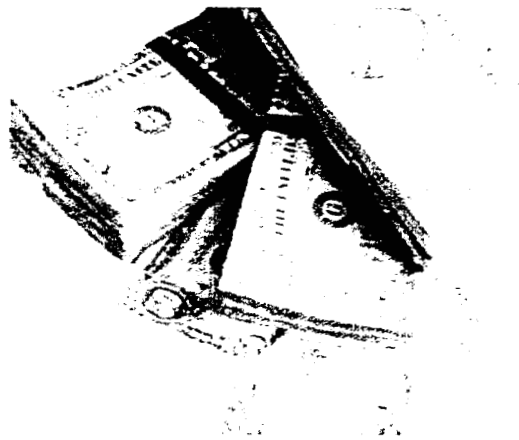
Finally, let me state that in some sense our experience, qualifications and capabilities are meaningless unto themselves because value added services cannot happen without commitment. We would encourage you to call our existing clients and to ask them about the level of commitment and accessibility that we bring to every engagement. We hope that the qualifications and commitment of our firm to serve the City will convince you of the quality of service and depth of expertise that PFM offers. We look forward to the opportunity to meet with you to discuss in greater detail our qualifications to serve as Financial Advisor to the City. Thank you for your courtesy and consideration of Public Financial Management, Inc. and should you have any questions, please do not hesitate to contact me at (415) 982-5544.

Sincerely,

PUBLIC FINANCIAL MANAGEMENT, INC.



R. Alexander Burnett  
Managing Director



## Firm Qualifications

505 Montgomery Street  
Suite 800  
San Francisco, CA 94111

Phone: 415/982-5544  
Fax: 415/982-4513



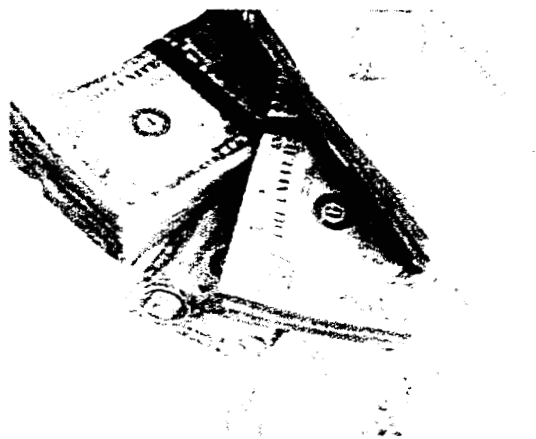
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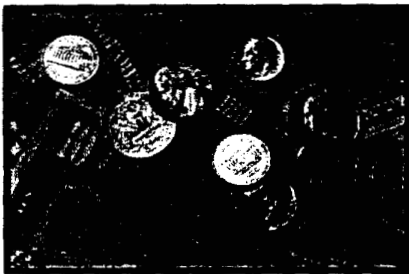




Our goal is to provide  
the highest quality  
advice to our clients so  
they are able to raise,  
invest and manage the  
resources they need in  
the most cost-effective  
manner possible.



Firm Profile



## History of the Firm

Public Financial Management, Inc. ("PFM") was founded in 1975 on the principle of providing sound **independent** financial advice to state and local governments. Today PFM is the nation's leading municipal financial and investment advisory firm with offices throughout the United States. PFM has three primary business activities: (i) transaction management related to debt issuance; (ii) investment advice and portfolio management for bond proceeds and working capital; and (iii) strategic consulting related to operating and capital budgets. With this comprehensive orientation, PFM is unique among financial advisors in that it is involved in **all** aspects of a government's finances.

PFM does not trade or underwrite securities. PFM serves only one interest—that of its clients. PFM is involved in the capital markets on a daily basis and offers its clients professional resources which equal or surpass those of any investment banking firm without the conflict of interest that underwriting firms bring to the table. PFM's only business is providing financial, investment and consulting advice to its clients.

### Financial Advisor

As a financial advisor, PFM engages in capital planning, revenue forecasting and evaluation, resource allocation, debt management policy, and debt transaction management (including structuring, documentation, and execution). PFM delivers a depth of experience and skill that helps clients resolve the myriad of technical and financial issues that are routinely confronted during the capital formation process. PFM's national reputation and its consistent growth in business activity from \$5 billion in debt management transactions in 1986 to \$19.5 billion in 1998 reflects our clients' recognition of our capabilities and value.

### Investment Manager

As an investment manager, PFM brings a comprehensive spectrum of services to the business of money management. PFM manages both state-oriented investment pools and individual client portfolios designed to earn competitive yields while maximizing safety and liquidity. Services include: timely and market driven portfolio management, portfolio design, state-of-the-art accounting and arbitrage rebate calculation services. The value of this service to clients is evident in the growth of assets under management from \$1 billion in 1986 to over \$9 billion in 1998.

### Strategic Consultant

As a strategic consultant, PFM brings its clients the most effective capital and operating budget advice available. Techniques for performance management, bench-marking, revenue enhancement, and privatization are all areas in which PFM has a proven track record. Since 1993, PFM has helped clients eliminate billions of dollars of projected budget deficits without increasing taxes or reducing services.



## **Personnel**

### **Experience**

PFM professionals have unparalleled experience and expertise in government and the financial markets. Included among PFM professionals are former Finance Directors, City Managers, County Administrators, Transit Agency CFOs and School Business Managers. In addition to government service, many of our professionals have worked as attorneys, bankers, portfolio managers, controllers, city planners, systems managers, architects and engineers.

### **Financial Expertise**

PFM has a record of developing innovative financing techniques designed to meet our clients' needs at the lowest possible cost of capital. Whether the innovation is as simple as a call feature or as dramatic as a commodity swap, PFM has pioneered the use of these methods for our clients.

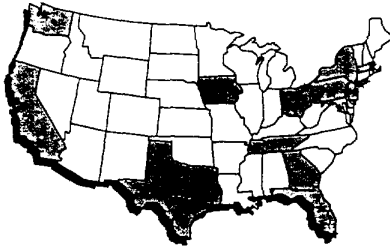
PFM's professionals possess the advanced financial skills needed to structure complex transactions, analyze credit quality, negotiate aggressive business terms and bond pricing levels, develop custom computer models and conduct disclosure reviews. The two most important resources that we devote to assisting our clients are the core group of professionals in the project team and our technical resources.

### **Project Teams**

PFM's team organization allows us to build each project team in a manner that will best serve the individual client. This may mean bringing together several members of the same advisory practice or it may entail organizing a team from several different practices and offices. Our specialized project teams ensure that our clients receive complete and thorough advice directly from the PFM professionals most appropriate to meeting their particular needs. This approach fosters creativity and innovation between PFM professionals and clients. The end result is premium client service.

### **The Result**

PFM's broad perspective on the financial issues of governments enables us to offer a wide scope of solutions to our clients' problems. PFM's understanding of public sector responsibilities and pressures provides us with both a unique insight into and appreciation for the decision making environment in which our clients operate. This enables us to complete our engagements with perspective that sets us apart from firms whose efforts are limited to merely providing investments or completing specific transactions.



## Offices Nationwide

**Atlanta, GA • 404 876-1919**

Peter Kessenich, *Managing Director*

**Austin, TX • 512 472-7194**

Bill Newman, *Managing Director*

**Boston, MA • 617 330-6914**

Stephanie Gibson, *Managing Director*

**Cleveland, OH • 440 239-7070**

Ted Ricci, *Managing Director*

**Dallas, TX • 214 712-9208**

Bill Newman, *Managing Director*

**Des Moines, IA • 515 243-2600**

Jeanne Vanda, *Managing Director*

**Fort Myers, FL • 941 939-3009**

Lavon Wisher, *Managing Director*

**Harrisburg, PA • 717 232-2723**

Barbara Fava, *Managing Director*

Michael Harris, *Managing Director*

Marty Margolis, *Managing Director*

David Sallack, *Managing Director*

Ken Schiebel, *Managing Director*

Michael Varano, *Managing Director*

Glen Williard, *Managing Director*

**Houston, TX • 713 524-3128**

Charles Taylor, *Sr. Managing Consultant*

**Memphis, TN • 901 682-8356**

Marlin Mosby, *Managing Director*

**Miami, FL • 305 448-6992**

Angela Kukoda, *Sr. Managing Consultant*

**New York, NY • 212 218-8350**

Hilary Ring, *Sr. Managing Consultant*

**Newport Beach, CA • 949 721-9422**

Keith Curry, *Managing Director*

**Orlando, FL • 407 648-2208**

Steven Alexander, *Sr. Managing Consultant*

David Miller, *Sr. Managing Consultant*

**Philadelphia, PA • 215 567-6100**

F. John White, *Managing Director*

Barbara Bisgaier, *Managing Director*

Brett Matteo, *Managing Director*

John Miller, *Managing Director*

Napoleon Nelson, *Managing Director*

Nancy Winkler, *Managing Director*

**Pittsburgh, PA • 412 561-2608**

Scott Bossung, *Sr. Managing Consultant*

**San Francisco, CA • 415 982-5544**

Alex Burnett, *Managing Director*

Nancy Jones, *Managing Director*

Peter Miller, *Managing Director*

**Seattle, WA • 206 325-8126**

Miriam A. Roskin, *Contract Consultant*

**Trenton, NJ • 609 392-0462**

Robbi Acampora, *Sr. Managing Consultant*

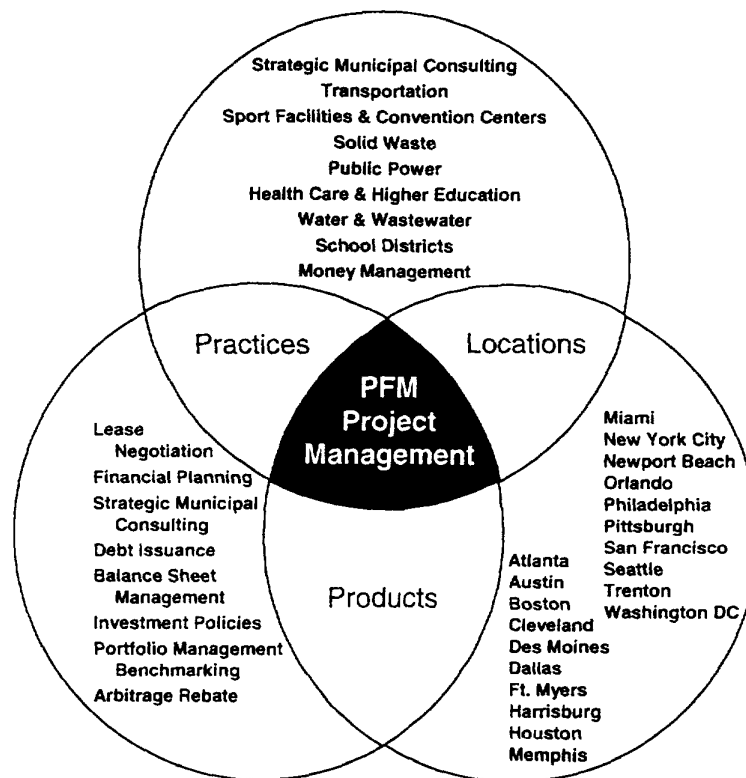
**Washington, DC • 202 872-8650**

JoAnne Carter, *Sr. Managing Consultant*



## Organization

PFM is comprised of advisory groups targeted to both specific government businesses and geographic regions which operate through the use of project teams. This approach to problem solving facilitates close working relationships among our many professionals. We provide service to our clients by organizing the most efficient and knowledgeable team of PFM professionals to serve each client's specific needs.





## Record of Achievement

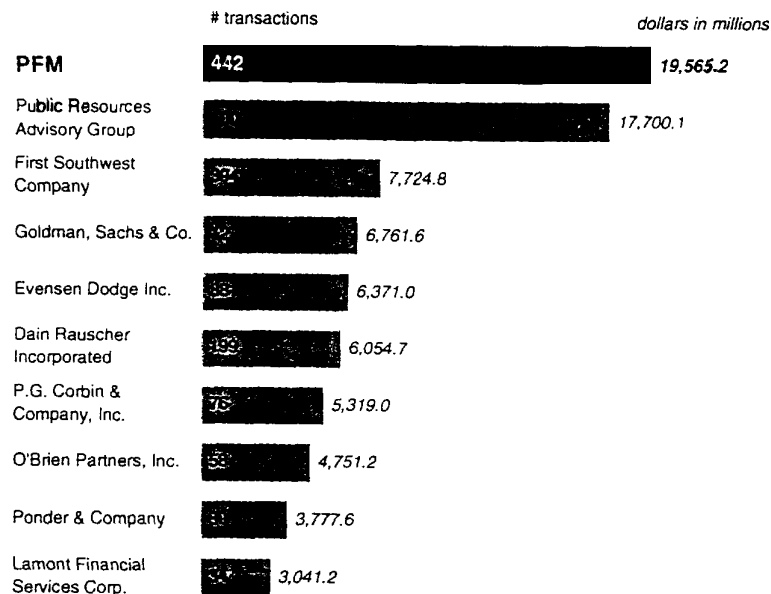
Since the firm was founded in 1975, PFM has been involved in financing programs totaling in excess of \$140 billion. During 1998, the firm was ranked as the number one financial advisory firm, completing 442 transactions with a total par value of \$19.5 billion.

Although rankings provide a short-hand method of measuring success, true value can be measured by the length of service and level of satisfaction we provide our clients. At PFM, we view our decade-long association with many clients as an affirmation of our ability to service their needs thoughtfully and efficiently. Our commitment is to the development of long-term relationships with our clients to ensure that their interests are satisfied and their goals are achieved.

### 1998 All Long-Term Municipal New Issues

*National Municipal Financial Advisory Ranking*

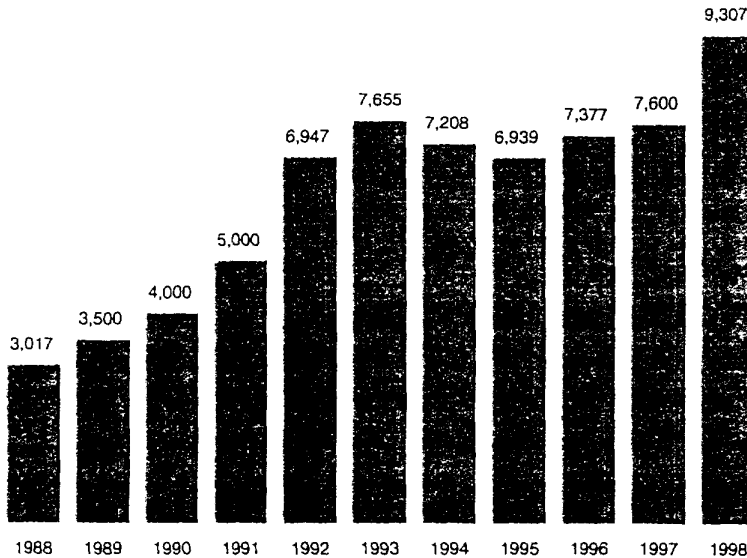
*Source: The Bond Buyer/Securities Data Company*





The growth in our practice has resulted in our constant participation in the capital markets. The firm has been in the market an average of five times a week for each of the past three years. In addition, our active management of client portfolios valued at over \$9 billion places PFM in the government securities market on a daily basis.

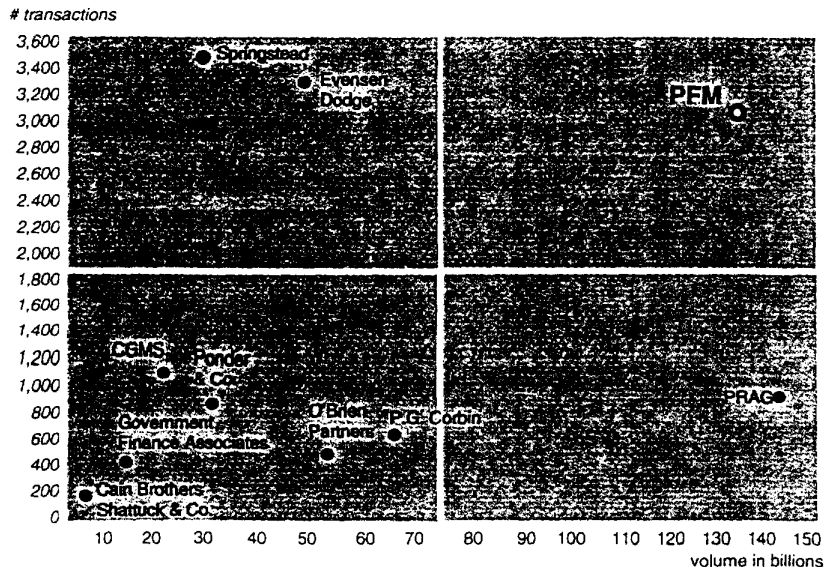
**Total PFM Assets Under Management  
1988-1998**  
dollars in millions



Over the last 10 years, PFM stands apart from other independent financial advisors by combining par value and number of transactions.

Among the nationally known financial advisory firms, only PFM combines the experience gained in completing large numbers of transactions with the sophistication and analytic capability required to bring transactions of high par value to market.

**1984-98 Financial Advisory Experience  
Volume/Transaction Matrix**  
*National Municipal Financial Advisory Ranking*  
Source: The Bond Buyer/Securities Data Company

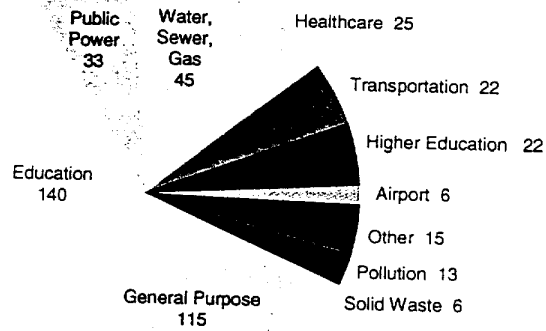




### 1998 PFM Transactions

National Municipal Financial Advisory Ranking

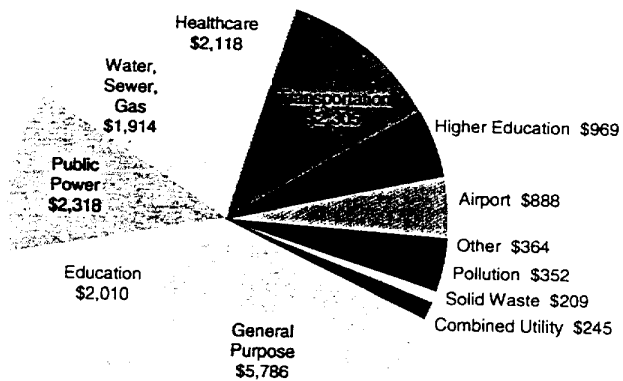
Source: The Bond Buyer/Securities Data Company



### 1998 PFM Volume in millions of dollars

National Municipal Financial Advisory Ranking

Source: The Bond Buyer/Securities Data Company







## Selected Clients

### ALASKA

Alaska Industrial Economic Development Authority

### ARIZONA

AZ Department of Transportation

### ARKANSAS

City of Little Rock

### CALIFORNIA

City and County of San Francisco  
East Bay Municipal Utility District  
Santa Clara Public Power Authority

### COLORADO

CO Water Res. & Pwr Dev. Auth.  
E-470 Public Highway Authority

### CONNECTICUT

State of Connecticut  
City of New Haven  
CT Resources Recovery Auth.

### DELAWARE

Delaware Health Facilities Authority

### DISTRICT OF COLUMBIA

Government of Washington, D.C.  
Wash. Metro Area Transit Authority

### FLORIDA

Orlando-Orange Cty Expswy. Auth.  
State of Florida

### GEORGIA

DeKalb County State of Georgia  
GA Department of Transportation

### HAWAII

City and County of Honolulu

### ILLINOIS

City of Chicago

### INDIANA

City of Evansville  
Evansville Park District

### IDAHO

City of Orofino

### IOWA

City of Cedar Falls  
IA Association of Schools

### KANSAS

Kansas Department of Transportation

### LOUISIANA

Audubon Park Commission  
City of New Orleans  
New Orleans Aviation Board  
New Orleans Sewerage and Water Board

### MAINE

Portland Water District

### MARYLAND

Maryland Department of Transportation  
Maryland Stadium Authority  
Maryland Transportation Authority  
University System of Maryland

### MASSACHUSETTS

City of Boston  
MA Health and Educ. Facilities Auth.  
MA Municipal Wholesale Elec. Corp.

### MICHIGAN

Michigan Department of Transportation  
Kent County

### MINNESOTA

Minnesota Public Facilities Authority

### MISSISSIPPI

State of Mississippi

### MISSOURI

City of St. Louis  
St. Louis Economic Development Corp.

### NEVADA

Clark County

### NEW HAMPSHIRE

Rockingham County

### NEW JERSEY

Over 50 School Districts  
Middlesex County  
NJ Higher Education Assistance Authority  
NJ Turnpike Authority

### NEW MEXICO

City of Albuquerque  
State of New Mexico

### NEW YORK

City of New York  
New York Power Authority  
Westchester County

### NORTH CAROLINA

Raleigh Durham Airport Authority  
Piedmont Triad Airport Authority

### OHIO

Greater Cleveland Regional Transit Authority  
Cuyahoga County  
Hamilton County  
Ohio School Facilities Commission

### OKLAHOMA

Oklahoma Turnpike Authority

### OREGON

State of Oregon  
City of Portland

### PENNSYLVANIA

Over 200 Separate School Districts  
Penn. Higher Educ. Assistance Agency  
City of Philadelphia

### PUERTO RICO

Puerto Rico Highway Authority

### RHODE ISLAND

Clean Water Finance Agency  
Rhode Island Health and Educational Building Corporation

### SOUTH CAROLINA

City of Columbia  
Piedmont Municipal Power Agency  
South Carolina Department of Transportation

### TENNESSEE

City of Memphis  
Metropolitan Government of Nashville/Davidson County  
City of Knoxville  
City of Chattanooga, Knox County  
State of Tennessee

### TEXAS

City of Austin  
Austin Independent School District  
Dallas Area Rapid Transit

### U.S. VIRGIN ISLANDS

Government of the Virgin Islands  
USVI Water and Power Authority

### VERMONT

Burlington Electric Company  
University of Vermont

### VIRGINIA

Chesapeake Bay Bridge & Tunnel District  
City of Norfolk  
City of Portsmouth  
Virginia Arbitrage Investment Mgt. (AIM)  
Virginia College Building Authority  
Virginia Public Building Authority

### WASHINGTON

Washington Department of Transportation  
Washington Health Care Financing Authority  
Washington Public Power Supply System

### WEST VIRGINIA

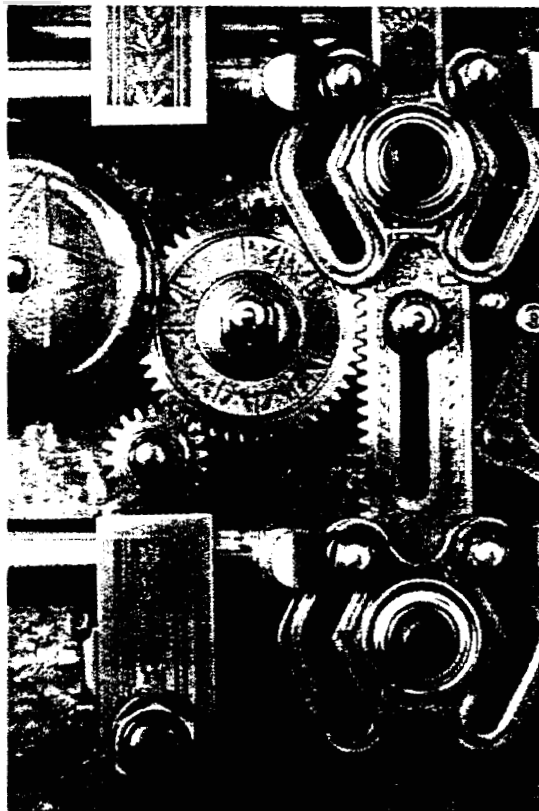
Energy America, Inc.

### WISCONSIN

Department of Natural Resources  
State of Wisconsin



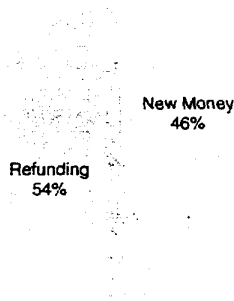
The financial advisory business is a business of ideas. PFM's culture is designed to explore these ideas and push them to the limits of their effectiveness. It is these ideas, rather than our resume, that set us apart from our competition.



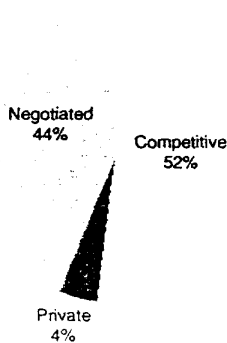
Experience



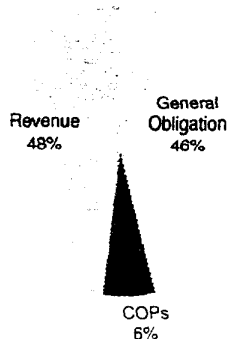
**Type of Issue**  
1998 PFM Transactions



**Type of Sale**  
1998 PFM Transactions



**Type of Security**  
1998 PFM Transactions



## Overview of Experience

PFM provides our clients with the most thorough technical analysis and advice possible. We are committed to maintaining an unmatched breadth and depth of expertise in public finance to fully serve all levels of government. We are an active practice, serving every type of municipal issuer including states, territories, authorities, counties, municipalities, townships and school districts.

In order to best serve our clients, we do not limit our focus to any single area of public finance, but rather develop and maintain expertise in all phases of the business. We also do not limit ourselves to advocating any one particular method of sale but are well versed in each technique available to the market at any given time. We approach our clients' needs with their interests at the forefront, not with a single solution in mind.

PFM has developed extensive experience structuring and advising our clients on new money, refunding and remarketing debt transactions with equal success. This has resulted in private placements, competitive and negotiated bond sales. The breadth of our expertise runs the gamut of types of debt issuances, whether it be revenue bonds, general obligation bonds, notes or certificates of participation.

As a firm, we seek to blend together our national experience with specialized functional expertise, regional knowledge and local perspective. PFM has developed individual practices dedicated to certain industries. Our clients are able to draw upon any combination of these resources as needed. The following pages contain summaries of PFM's specialized practices.



## General Municipal

PFM serves general municipal clients at all levels of government: state, regional authority, county and municipal. Some have used PFM's full complement of services; others have needed to draw upon only one aspect of our services.

At PFM, we are responsive to the particular needs of our clients. We believe our results are enhanced if our clients develop long-term plans which include financial policies and the identification of alternative revenues. We view capital planning as an essential component of an issuer's overall debt issuance and financing program—whether they plan to issue once or several times in the immediate future.

Financial planning involves reviewing the current situation of an issuer, determining its capital needs and fiscal constraints, and then establishing financial objectives and a comprehensive strategy to achieve them. We are able to follow this up with in-depth debt management services which include analyzing debt structure alternatives, determining the optimum method of sale, coordinating the marketing of the bonds, developing rating agency presentations, and assisting with the pricing of the bonds. This approach to financial advisory work has led to the establishment of ongoing relationships with our clients, many of whom have been with us for more than a decade.



## Health Care and Higher Education

PFM's health care and higher education clients run the gamut from stand alone issuers to quasi-public agencies and authorities. As financial advisor to 15 health care and higher education authorities coast to coast, PFM is especially qualified to fulfill the wide range of services these clients demand. PFM is experienced in every aspect of a transaction from the initial analysis that marks the genesis of a project through negotiations as to the type, structure, size and timing of the financing, to the selling of the bonds and investment of bond proceeds. PFM is a "full service" financial advisor to health care and higher education clients.

Additionally, PFM keeps informed and updated as to various changes in health care reimbursement law and all other legislation regulating not-for-profit institutions. This knowledge ensures that the solutions PFM offers are responsive to each issuer's unique situation and long-range objectives.

PFM is distinctly qualified to serve the specific financing and regulatory requirements of health care and higher education issuers. Since 1990, the firm has advised on 329 health care and education related transactions, with a total dollar value of over \$13.7 billion. Nationally, PFM has been ranked among the top three financial advisors on health care and higher education issues in the past five years for number of transactions and dollar value of transactions. PFM has extensive experience in negotiated and competitive sales, private placements, equipment and capital leases and pooled financings for health care and higher education related issuers. PFM has advised clients at every level of credit quality from unrated to AAA and the firm is familiar with every type of legal structure prevalent in the industry today.



## Public Power

PFM has considerable experience with municipal electric utilities and has worked with a broad range of public power financings. As deregulation and the advent of open wheeling change the economics of the industry, communities' demands for available power facilities continue to grow. Industry change makes it increasingly difficult for public entities to maintain the required infrastructure while holding rates competitive and financial positions healthy. PFM can help power providers to evaluate their current position and then develop a strategy to protect or improve that position in the future.

Development of new resources increasingly requires cooperation between multiple parties, both private and public. PFM can work with an agency throughout the negotiating process to ensure that the final legal and business framework for any project is consistent with its own best interests.

As deregulation allows investor owned utilities to compete with municipally owned utilities for end users, it opens the market for experienced public agencies to compete with private entities. PFM can develop a strategy for a municipal power provider that leverages the value of access to low cost tax free financing to provide competitive development opportunities for new, off site power generation.

Ultimately PFM is in the rate business. We use the full range of transaction management services including refinancing, restructuring, rate stabilization, and derivative products as tools to alter and rearrange the cost from obligations associated with debt financings. Long term cost control requires optimal use of both assets and debt resources as a hedge against market variation. PFM can work with power providers to develop an appropriate hedging strategy.



## School Districts

PFM has a long history of servicing the needs of hundreds of school districts throughout the United States, having advised on more the \$7.0 billion of permanent financing for school districts during the past decade. During this period, in Pennsylvania alone, we have averaged more than 50 school district bond transactions a year. We also have been involved in hundreds of millions of dollars of tax and revenue anticipation note deals annually to assist school districts with seasonal borrowing needs. Moreover, we have extensive experience working on current, and advance refundings for school districts throughout the nation. Our expertise allows us to work closely with State Departments of Education, co-authoring refunding regulations.

In addition to advisory services related to financings, PFM provides assistance to school districts in long-range planning and budgeting and general business practices.

This broad range of experience is brought to bear on each district we advise whether it is on a \$70 million financing for Dade County School District in Florida, a \$470,000 bond issue for Pinelands Regional School District in New Jersey, or a financial recovery plan for Chester-Upland School District in Pennsylvania.



## Solid Waste

With the founding of our solid waste practice in 1981, PFM began a commitment to serve the needs of clients facing the complex and expensive task of managing municipal solid waste disposal. Since that time we have advised on more than \$3.5 billion of transactions. As the problems of disposal have grown, public awareness and sensitivity to these problems have also increased. Environmental regulations and the requirement for formalized solid waste disposal planning have become more complex and demanding. Communities are seeking integrated solutions to their disposal problems, often relying on a significant level of recycling and composting as major elements of an integrated waste disposal strategy.

PFM's solid waste practice and experience have grown and evolved with recent trends. From an original emphasis on development of waste-to-energy facilities, our practice now includes many recycling, composting, landfill and transfer station projects. We have represented public entities' interests on publicly and privately owned projects as well as negotiated contracts on behalf of our clients with recycling firms, landfill operators and resource recovery vendors.



## Sports Facilities and Convention Centers

PFM is the nation's pre-eminent financial advisor for public assembly and sports facilities. In that role, we create innovative financing structures which revolutionize the financing of public-private sports facilities. As a result of our wide variety of experience in sports facility and public assembly facility finance, we can offer our unmatched financing expertise with a solid understanding of local markets, regulations and political networks.

PFM serves in an essential consensus building role between private parties, owners, tenants, vendors, developers and public sector leaders. PFM also understands the way the relationships between parties must be structured to provide the maximum amount of economic leverage for the project. PFM has experience mitigating the type of risks involved in transactions of the size and scale required for public assembly facilities in the most cost effective manner.

Our experience includes:

- Arena, stadium and convention center financings;
- Financing of urban redevelopment projects/mixed use developments;
- Project revenue secured debt financings for sports facilities;
- Sports facility and convention center credit structuring; and
- Hotel financing facilities.

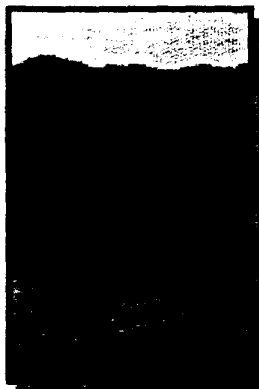


## Transportation

PFM's transportation practice encompasses four major areas – mass transit, highways, public/private studies and airports. Our involvement in mass transit has included both traditional financing and the merging of global funding techniques such as tax benefit transfers, vendor financing, export credits, and leveraged leasing, along with joint development and privatization. With regard to highways and tollroads, PFM experience ranges from start-up tollroads to DOT credits, from international crossings to State Infrastructure Banks. For years, PFM has been at the forefront of advancing the use of private funding and public/private partnerships to provide alternative sources of capital for transportation projects in the face of limited resources. In addition, PFM has a long history of assisting airport clients with traditional and innovative financing structures.

PFM provides its transportation clients with seven basic services:

- The preparation of a financial plan;
- Guidance in fully utilizing available resources;
- Assistance in the process of securing funding from additional sources;
- Providing financial innovation and expertise;
- Assisting in the implementation of a debt program;
- Seeking the lowest interest cost on your borrowing; and
- Assistance with the investment of bond proceeds and operating revenues.



## Water & Wastewater

PFM has extensive expertise in financial planning for all types of water (both wholesale and retail) and wastewater (including flood control, irrigation, stormwater, and reclamation) agencies. PFM serves some of the leading water and wastewater utilities across the nation and also has a very significant State Revolving Loan Fund practice.

PFM recognizes that environmental utilities face an increasingly constrained regulatory and fiscal environment. Constraints on revenue, funding, and financing sources are now combined with more costly and far-reaching environmental requirements. PFM works with its environmental clients to meet the challenges of this new environment with creative financial management, capital planning and financing solutions.

PFM identifies practical financing alternatives and assists its clients to structure the alternative that meets its financial and planning requirements. PFM encourages innovative but appropriate solutions and is always sensitive to the role of public officials in developing, implementing and documenting financial plans and financing transactions.

PFM has also been a leader in the creation and implementation of Title VI State Revolving Funds (SRF) and is now working with several states to develop the new Drinking Water Revolving Funds (DWRf). Our SRF clients have been on the leading edge of finding new ways to aggressively manage their programs.



## Strategies

**Matching of Assets and Liabilities**

**Shopping Aggressively for Securities**

**Trading the Yield Curve**

**Trading among U.S. Treasury Obligations with Similar Maturities**

**Trading among Sectors**

**Continuously Monitoring Creditworthiness**

## Investment Advisory Services

PFM is the leading independent financial and investment advisory firm in the United States serving public sector clients. PFM's Investment Advisory Group has been directing the management of public-sector funds since 1980 and currently manages over \$9.3 billion in assets. Investment management is part of our comprehensive approach to advising public agencies on asset and debt management and capital and strategic planning.

PFM manages separate accounts for about 200 public sector clients, and provides investment management services for over 2,000 additional clients through commingled state-wide investment programs. Separately managed accounts range in size from about \$1 million to more than \$500 million. In addition, we provide non-discretionary advice where we develop or review investment policies, recommend investment strategies, perform cash flow forecasting, and portfolio valuation. All of PFM's accounts are short- and intermediate-term fixed income portfolios. The accounts under management consist of, operating funds, capital reserves, insurance reserves, proceeds from the sale of bonds, and other government funds with an investment horizon of overnight to five years.

PFM's investment philosophy is one of active portfolio management within the constraints imposed by our clients' objectives of preserving principal and providing liquidity. The specific strategy PFM employs for each portfolio depends on the type of funds being managed (operating fund, reserves, etc.), current interest rates, permitted investments and liquidity requirements. Our primary objective is to avoid credit risk and minimize market risk, since this is the objective that is generally emphasized by our public sector clients. Hence we make no use of complex derivatives, little use of corporate credits below the AA rating, and limited use of mortgage-backed and asset-backed securities.

Active portfolio management permits us to respond to changes in the markets and changes in payment or draw schedules. This dynamic yet disciplined approach means that investment return can be enhanced through prudent trading and portfolio restructuring without subjecting a portfolio to unnecessary risk. Active management calls for assets and liabilities to be monitored on a regular basis so that we can take full advantage of opportunities presented by the market.

Because we work exclusively with public funds, we are quite sensitive to the risk-minimizing investment objectives of our public sector clients. Safety is further enhanced because PFM never takes possession of our clients' securities or cash. These assets remain in the custody of each client's custodian bank. PFM also carefully monitors relevant legal restrictions that have been or could be imposed on the funds we manage to insure that all such requirements are met.





## Local Government Investment Pools

PFM has been a pioneer in developing innovative state-wide pool programs to provide local government officials with a safe and convenient means of investing operating funds and bond proceeds on a cooperative basis. In 1981, we helped start the Pennsylvania Local Government Investment Trust (PLGIT), the first "grass-roots" local government investment pool in the country, and we have been its investment manager ever since. PLGIT is governed by a board of local government officials who are elected annually by participants, and has nearly 2,400 members and more than \$3 billion in assets in four separate investment programs. PFM has assisted state and local government officials to organize similar programs in eight states, and we currently manage investment pools and for six statewide pool programs.

We manage each of these pools in a manner that emphasizes safety and liquidity, and also seeks to produce a high yield. We also provide administration and accounting services that include portfolio and shareholder accounting and sub-accounting, and an array of cash management services like automatic sweeps, direct deposit of revenues, check-writing, automated clearing house payments, and an innovative debit card/credit card program.

Some larger clients have found that by creating an internal pool they can solve the accounting and investment management problems associated with having a large number of relatively small funds or accounts. We manage a number of these internal pools in a manner designed to provide enhanced liquidity, portfolio diversification/safety, sub-accounting for multiple funds, reduced custody/transaction costs, and improved portfolio returns.

### Short-Term Performance

PFM manages each of the short-term state-wide commingled investment pools in a manner that is consistent with the Securities and Exchange Commission's rules for money market mutual funds, so we have significant experience in investing short-term funds for maximum yield while maintaining a very high degree of liquidity. For example, for the five-year period from January 1992 through December 1996, the return on PFM-managed short-term pools in Virginia was 4.67% compared to 4.34% on three-month Treasury bills and 3.97% on the IBC/Donoghue Index (an average of the yields on all major money market mutual funds). These PFM-managed funds invest only in U.S. Treasuries, Federal agencies, collateralized repurchase agreements, and top-rated bankers' acceptances and commercial paper, and they maintain an average maturity of less than 90 days.



## Arbitrage Compliance Services

The provisions of the Tax Reform Act of 1986 and arbitrage rebate regulations have made effective bond proceeds investment management and reporting a challenge for tax-exempt bond issuers. PFM's Investment Advisory Group has developed programs for investing bond proceeds for tax-exempt bond issuers which optimize interest earnings while meeting the tax law's stringent reporting, arbitrage and rebate requirements.

These programs combine the convenience, accounting and cost-advantages of a short-term pool and the fixed return of a custom-designed portfolio of individual securities to maximize the earnings that a client may retain while complying with all aspects of the rebate regulations. For a construction account, for example, target duration is derived from the draw down schedule, and funds may be invested in a laddered portfolio of securities and in a pool. After the initial purchase of the portfolio, we monitor the draw down schedule through direct contact with client project managers or engineers, and continually update cash flow projections. This active approach allows us to make appropriate adjustments to the portfolio so that assets and liabilities are properly matched, and earnings are maximized to the extent permitted by the arbitrage regulations.

The arbitrage regulations impose detailed and often confusing restrictions on investing proceeds of tax-exempt bonds and monitoring results. For bond proceeds subject to the arbitrage rebate requirements, PFM maintains all required investment and disbursement records. We also solicit a minimum of three bids for each security purchased or sold in order to establish that the transaction occurred at a fair market value and thereby ensure compliance with the tax law's provisions barring "prohibited payments" or yield burning.

Each of our state-wide investment pool programs has several components specifically designed to help issuers invest bond proceeds in a manner that complies with the arbitrage regulations. These include:

### **Arbitrage and Rebate Compliance**

PFM assumes responsibility for all transactions, calculations, monitoring and documentation necessary for compliance with Federal tax regulations and laws relating to arbitrage and rebate.

### **Comfort**

Bond Counsel plays an integral role in our programs by reviewing PFM's methodology and assuring that the methodology employed by PFM conforms with the requirements of federal tax law.

### **Liquidity**

Investors may withdraw funds from the pool at any time to pay capital costs. Individual portfolios are invested in highly liquid securities like Treasuries and Federal agencies that match expected draw-downs and may be sold if necessary to meet unexpected draws.

### **Yield**

Each program offers both a pooled and individual portfolios, and PFM allocates assets between the two to produce the optimal yield without assuming unnecessary risk.



## Innovations

As an independent financial advisory firm, PFM uses innovative ideas and structures as tools to assist clients in realizing their objectives and solving their problems, not as a means of doing deals. Innovation for its own sake has little value and may be risky, but as part of carefully crafted plans that reduce cost, increase revenue or maximize future flexibility, innovative financing techniques can often add significant value and make the infeasible achievable. We use innovations to create opportunities, as was the case for a large public utility that had recently emerged from the stigma of default. In this case, as part of a several billion dollar refinancing program, we recommended that a portion of its bonds be structured with two-year par calls, so that as the credit regained market acceptance and the interest rate premium demanded by the market because of the earlier default dropped, the issuer would be able to refinance its debt at lower interest rates. Through this strategy, significant debt service savings were realized. For another client that could not legally advance refund its bonds, we crafted an open market tender program to restructure a portion of its outstanding debt, also realizing significant debt service savings.

When developing financial plans, it is essential that the components of the plan be reviewed from all relevant perspectives. As full service financial advisors, we assist our clients with developing financial plans, completing transactions and managing the investment of bond proceeds and related arbitrage rebate compliance. We also provide broad-based consulting advice about all aspects of financial operations. Before making recommendations about how to structure particular transactions, we explain to clients the advantages and disadvantages of all plausible approaches and ensure that our clients understand the ramifications of the recommended structure. As important as the transactions that we advocate are those ideas that we recommend against because they entail undue risk, do not achieve the client's objectives or are inferior to other alternatives.

We have developed and assisted clients to implement many innovative financing techniques, in each case tailored to the objectives and constraints of that particular entity. We completed the first competitive advance refunding and variable rate bond issues. We have assisted clients with asset sales and securitizations of tax liens, pension fund contributions and other assets or revenue streams as a means of managing cash flow and increasing net income. We have extensively analyzed and managed the competitive and negotiated placement of many derivative securities, but only after ensuring that all risks were understood and appropriately managed and that contract terms were written to protect our clients' interests. We have managed a host of synthetic advance refunding techniques to allow our clients to guarantee debt service savings from outstanding high coupon bonds that, under federal tax law, cannot be advance refunded. We have integrated the management of assets and liabilities to minimize interest rate risks, cash flow variances and other risks through techniques such as forward rate agreements, interest rate swaps and commodity price swaps.



PFM has become the  
nation's leading  
financial advisory firm  
by providing clients  
with extensive and  
superior service.



Services



## Services

PFM offers its clients a complete scope of services to meet all of their financial needs. PFM develops innovative financing solutions for our clients' problems and leads the public finance industry in the introduction of financing techniques designed specifically to enhance a government or agency's access to the capital markets. As a national firm, we are able to offer an unrivaled breadth of experience and market expertise. As a result, we define our services as they relate to the formation and management of capital assets. Our scope of services is structured into three areas:

### Scope of Services

#### **Financial Consulting**

Policy Development  
Debt Capacity  
Capital Budget  
Competitive Contracting  
Benchmarking  
Performance Measurement  
Targeted Budgeting  
Securitization of Delinquent Assets  
Labor Strategies  
Revenue Enhancement  
Strategic Municipal Consulting  
Lease Negotiation

#### **Debt Management**

Financing Schedule  
Debt Structuring  
Negotiated vs. Competitive  
Financing Team Selection  
Financing Alternatives  
Financing Terms  
Draft Documents  
Marketing Plan  
Rating Presentation  
Bond Pricing  
Closing  
Refunding Verification Services

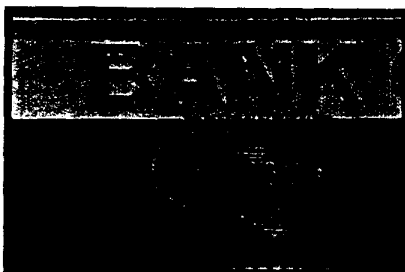
#### **Investment Management**

Fixed-Income Portfolio Management  
Cash Management  
Bond Proceeds Investment Management  
Policy Development  
Cash Flow Forecasting  
Escrow  
Structuring/Restructuring  
Structured Investment Products  
Arbitrage Rebate Compliance  
Accounting/Recordkeeping Services

Financial Consulting

Debt Management

Investment  
Management





## **Financial Consulting**

Policy Development  
Debt Capacity  
Capital Budget  
Competitive Contracting  
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Targeted Budgeting  
Securitization of Delinquent Assets  
Labor Strategies  
Revenue Enhancement  
Strategic Municipal Consulting  
Lease Negotiation

## **Financial Consulting**

### *Develop Policy Regarding Financing and Debt*

- Provides formal written policy and procedures for measuring and making financial decisions
- Demonstrates sophisticated financial management

### *Analyze Future Debt Capacity*

- Determines ability to raise future debt capital
- Identifies rating concerns and/or opportunities

### *Review Capital Budget*

- Matches the sources of capital funding to infrastructure needs

### *Competitive Contracting*

- Injecting competition into service provision
- Exploring privatization as an alternative for selected services

### *Benchmarking*

- Analyzing best practices to establish performance goals for government services

### *Performance Measurement*

- Determining appropriate methods of measuring service performance
- Defining departmental missions in light of available resources

### *Targeted Budgeting*

- Setting periodic targets within fiscal years for corrective measures to assure on budget performance

### *Securitization of Delinquent Assets*

- Structure non-performing assets for sale including tax and utility liens, vacant land and buildings

### *Labor Strategies*

- Analyze existing contracts for cost savings
- Study work rule reforms
- Coordinate overall approach in multi-bargaining unit environment

### *Revenue Enhancement*

- Improve level of revenue generated from existing sources without tax increases
- Analyzing funds reimbursed from other governments

### *Identify Financing Alternatives*

- Informs issuer of pros and cons of the universe of financing techniques
- Selects optimal financing strategy



## **Debt Management**

Financing Schedule  
Debt Structuring  
Negotiated vs. Competitive  
Financing Team Selection  
Financing Alternatives  
Financing Terms  
Draft Documents  
Marketing Plan  
Rating Presentation  
Bond Pricing  
Closing  
Refunding Verification Services

## **Debt Management Services**

### *Develop and Monitor Financing Schedule*

- Serves as a plan for timely completion of the financing

### *Analyze Debt Structure Alternatives*

- Designs a structure which maximizes market interest and future financing flexibility while being consistent with debt policy

### *Review Existing Debt Structure*

- Documents current debt structure
- Identifies strengths and weaknesses of structure so that future debt issues can be structured to maximize ability to finance future capital needs
- Identifies funding opportunities

### *Recommend a Negotiated or Competitive Sale*

- Tailors debt issue to the most efficient way to market the debt and maximize investor interest or minimize the interest cost

### *Assist the Issuer with the Selection of Working Group Members*

- Selects a team that can most effectively bring an issue to market

### *Develop Terms of the Financing*

- Ensures credit quality and presents terms which are attractive to investors to create broad-based interest in the debt
- Maximizes issuer's future flexibility

### *Develop Financing Documents*

- Assures issuer that all contractual and business terms are reviewed from the issuer's perspective

### *Develop Marketing Plan*

- Maximizes underwriter and investor interest in the securities

### *Develop Rating Presentation*

- Obtains highest possible credit rating for debt issue
- Formulates and implements long-term credit rating strategy

### *Assist With Pricing of Bonds*

- Assures issuer of lowest interest rate for given market
- Provides written documentation of acceptability of pricing



**Investment  
Management**

Fixed-Income Portfolio  
Management

Cash Management

Bond Proceeds  
Investment Management

Policy Development

Cash Flow Forecasting

Escrow

Structuring/Restructuring

Structured Investment  
Products

Arbitrage Rebate  
Compliance

Accounting/  
Recordkeeping Services

**Investment Advisory Services**

*Fixed-Income Portfolio Management*

- Market driven investment strategies meeting client objectives
- Maximizes earnings while preserving principal
- Provides necessary liquidity

*Cash Management*

- Enhances investment performance
- Matches assets and liabilities
- Provides a high degree of liquidity

*Bond Proceeds Investment Management*

- Complies fully with arbitrage rebate regulations
- Develops strategies to maximize retainable earnings
- Complies with yield restriction requirements
- Provides complete accounting and recordkeeping

*Policy Development*

- Defines investment strategy
- Identifies allowable and appropriate investments
- Specifies risk parameters

*Cash Flow Forecasting*

- Forecasts seasonal fluctuations
- Identifies core portfolio balance
- Maximizes earnings within liquidity constraints

*Escrow Structuring/Restructuring*

- Identifies most efficient portfolio
- Eliminates yield burning risk
- Complies with any yield restriction requirements

*Structured Investment Products*

- Identifies optimal investment strategy
- Hedges investment risk
- Optimizes investment cash flows

*Arbitrage Rebate Compliance*

- Complies fully with arbitrage rebate regulations
- Maintains all necessary investment records
- Minimizes rebate liability to the extent possible

*Accounting/Recordkeeping Services*

- Provides detailed portfolio accounting reports
- Tracks performance versus appropriate benchmarks